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CORNHUSKER ECONOMICS

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Institute of Agriculture & Natural Resources
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Long-Term Care for Farmers and Ranchers

Market Report	Yr Ago	4 Wks Ago	9/30/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$83.45	\$81.59	\$86.44
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	126.03	134.80	136.86
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	120.17	117.60	120.88
Choice Boxed Beef, 600-750 lb. Carcass	136.74	134.80	137.56
Western Corn Belt Base Hog Price Carcass, Negotiated	75.57	65.69	68.05
Feeder Pigs, National Direct 45 lbs, FOB	46.65	43.78	52.36
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	74.54	73.99	70.37
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	89.37	95.00	94.37
National Carcass Lamb Cutout, FOB	220.40	242.12	243.84
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.19	*	*
Corn, No. 2, Yellow Omaha, bu	1.78	1.65	1.52
Soybeans, No. 1, Yellow Omaha, bu	4.85	5.68	5.19
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.80	2.64	2.45
Oats, No. 2, Heavy Minneapolis, MN, bu	1.62	1.68	1.80
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	117.50	117.50
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	37.50	37.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	52.50
* No market.			

An Aging Population

There are more than 36 million Americans over the age of 65. Projections estimate this segment of the population will double to 72 million in the next 25 years. Long-term care for America's aging population is an important consideration in estate and business transition planning. Many have become increasingly aware how easily the cost of long-term care can wipe out a lifetime of savings or hamper the transfer of a family farm, ranch or business to future generations.

What are the Costs of Long-Term Care?

When examining costs one should consider not only the potential cost of nursing home facilities, but also other paid alternatives such as assisted living or adult day care, as well as the unpaid options, such as home and community based care provided by family, friends, neighbors or volunteers.

Base rates for nursing home facilities vary widely. In recent surveys of Nebraska nursing homes, costs range from \$1,728/month to \$4,350/month. The national average in 2004 was \$2,525/month. In addition to the base rate, most nursing homes charge extra for any additional care or services that may be needed. Estimates for "full care" rates, depending on location and extent of services, range from \$3,000/month to \$5,000/month.

Assisted living in one's home may cost less out-of-pocket; however, when the housing, the health care professional assistance and the food costs are considered, it may also be quite expensive.

A somewhat less expensive alternative is adult day care, but again, the housing, the transportation to and from adult day care, as well as the time commitment from a family member, neighbor or volunteer, must be considered.

Home and community based care provided by family, friends, neighbors and volunteers may, on the surface,



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appear to be the least expensive option. However, one must consider the time commitment, added stress and opportunity cost for the person providing the care or transportation.

What are the Odds of Needing Long-Term Care?

Approximately 6.4 million, or 18 percent of the 36 million Americans over age 65, are in need of some type of long-term care. Of the 6.4 million who need long-term care, 1.5 million reside in long-term care facilities (nursing homes). The remaining 4.9 million utilize either paid options such as assisted living or adult day care, or unpaid alternatives such as home and community based care provided by family, friends, neighbors or community volunteers.

- Table 1 illustrates that only 4.5 percent of those over 65 reside in a nursing home facility.

Table 1. Nursing Home Residence as a Percentage of the Age Group

Age	Percentage	Number
65-74	1.1	210,159
75-84	4.7	574,909
85 +	18.2	772,733
Over 65	4.5	1,553,800

- Table 2 illustrates that 46 percent of nursing home residents are age 85+.

Table 2. Nursing Home Residence Percentage by Age Group

Age	Percentage
85 +	46
75-84	33
65-74	13
Under 65	8

- Two-thirds of all men over age 65 and one-third of all women over age 65 will never stay a single day in a nursing home facility.
- Over 50 percent of all nursing home facility stays will last less than 6 months.
- Only 25 percent of all women over age 65 and 10 percent of all men over age 65 will stay more than one year in the nursing home facility.
- Only 10 percent of those over 65 will stay more than 3 years in a nursing home facility.
- The average length of stay in a nursing home facility is between 18 and 20 months.

Historically, most people do not need extended long-term care. Only 18 percent of those over age 65 are receiving some type of long-term care, and statistically two-thirds of men over 65 and one-third of women over age 65 will not spend a single day in the nursing home. The older an individual, the greater the chances are of needing long-term care.

What are Some Strategies for Providing for Long-Term Care?

Many people wish to leave personal property, cash, investments or a farm or business to their heirs. To protect the heirs’ inheritance from potentially devastating long-term care costs, it is important to examine both the “worst case scenario” and the “most likely alternative.” As the statistics in the previous section demonstrate, most individuals will not need extensive long-term care. The most likely alternative therefore is that most people will not need to earmark large amounts of cash, assets, earnings or insurance coverage to protect their estate against the unlikely event of extended long-term care. The “worst case scenario” on the other hand, includes the unlikely event that long-term care will be needed and perhaps be needed for an extended period of time. What might the potential cost be? It is difficult to accurately predict future long-term care expenses. Health care costs have been rising at a faster rate than most other areas of the economy. Thus, the funds needed to offset the costs of long-term care are also very difficult to predict. Currently, \$5,000/month to \$6,000/month seems to be a planning point for the “worst case scenario.”

- **Providing for long-term care through income or a reduction of assets:** Individuals have a variety of sources that can be drawn upon to help provide the income to pay for long-term care, if the need arises. Most people have some income from retirement sources, such as Social Security, pensions or other retirement accounts. Many receive income in the form of dividends, interest, rents, installment sales payments, reverse mortgages and profits from farms or businesses. If income alone is adequate to pay potential long-term care costs, the preservation of assets should be possible and the desire to pass an inheritance to the heirs will not be adversely affected. If income alone is not adequate, then assets will need to be liquidated and the proceeds used to pay long-term care costs. Today, \$5,000/month to \$6,000/month may be adequate, but how long will we live and what changes are in store?
- **Providing for long-term care through the use of long-term care insurance, also called nursing home insurance:** Should you buy long-term care insurance? Depending on your financial situation, there may be other investments that might provide a better return with greater liquidity, while at the same time contribute

protection against long-term care costs. However, each individual has a different tolerance for risk, and each individual must decide how much of their income they are willing to spend for insurance or how many of their assets they are willing to risk on the chance that they will incur substantial long-term care expenses. For those who wish to purchase long-term care insurance most experts advise spending no more than 5 percent of disposable income on premiums. Premiums paid for long-term care insurance are determined by the age, health and domicile of the applicant. The length of benefit payments and the daily payment amount represent the most expensive features in long-term care insurance. Other factors that contribute to premium rates include:

- Are payment benefits restricted by the periods of confinement?
- Is home care, assisted living and adult day care coverage included?
- What are the “triggers” or covered events that activate payments to the policy owner?
- Is there an elimination period included before payment begins, such as 0, 20 or 100 days, the most common periods in which no payment is made under a policy? (This elimination period amounts to a deductible).
- Is there an inflation rider that increases coverage as time passes?
- Is indemnity paid out on a dollars/day basis or as a reimbursement of incurred expenses?
- Is there a waiver of premium option that allows the owner to stop paying premiums once a nursing home stay begins?
- Is there a premium refund option that would return all or part of the premiums paid if benefits are not needed?

When buying nursing home insurance it pays to shop around. Find the answers to the above questions. Companies vary and most offer several products with a vast array of features and options. Find a reputable company with a good track record. Choose the policy that best fits your situation at a price that you can afford.

- **Providing for long-term care in the absence of income, assets or insurance:** Medicaid acts as a safety net for those that are not otherwise able to provide for the expenses incurred through long-term care. To qualify for Medicaid, individuals must meet a strict series of eligibility requirements. Tests regarding status, resources and income must all be met before Medicaid will step in to pay for nursing home costs. Originally designed as a program for the impoverished, state and federal Medicaid funds are available only after all other sources are exhausted. Federal budgeting issues suggest the potential for changes to occur in the Medicaid eligibility requirements.

Conclusion

Long-term care for an aging population will become increasingly important to the stability of Nebraska’s farms, businesses and communities. An extended nursing home stay may have an extremely serious impact on a family farm or business. Individuals must carefully weigh the costs and the risks associated with such a stay, in spite of its statistical improbability. Education and planning can assist parents and their families with the process of transferring farms, businesses and estates to the next generation.

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